Impacts of Program Reductions

In accordance with House Bill 2, section 10, the department has compiled the following information, which addresses the impacts to the department of the FY 2003 budget reductions made in accordance with Section, 17-7-140, MCA, and during the August 2002 Special Legislative Session.

The impacts of the budget reductions discussed below are based on current staffing levels. The department normally experiences approximately 7% turnover rate in staffing. The impacts of the hiring freeze imposed as part of the budget reductions on future vacancies is not reflected below since the location of the future vacancies is not known at this time. However, to the extent the department experiences additional turnover, the impacts noted could change significantly due to the hiring freeze and the department's inability to fill vacant positions. For instance increased vacancies could cause delays in liquor licensing, reappraisal, customer service, reaching stabilization of POINTS, and implementing of POINTS II.

Program: Director's Office (DO)

Original Funding Level: $2,326,931

Summary of Budget Reductions: $125,494 or 5.39%

Areas Reduced: Reduction of the number of copiers, purchase of supplies, travel and training for all staff except attorney's legal continuing education; elimination of prepayment of FY 2004 Federation of Tax Administrators (FTA) and Multistate Tax Commission (MTC) dues; leaving hearings officer position vacant for 6 months; increased vacancy savings requirement due to pay plan reduction; and decreased overtime incurred to meet deadlines.

Narrative of Impact:

The reduction in supplies and copiers will cause delays in production of assigned presentations and the quality of presentations due to outdated equipment and lack of resources necessary to perform daily job duties.

The reduction of travel will include not attending conferences normally attended by department staff. These conferences allow department to learn from other states through issues they encounter, best practices used and methods to resolve issues. The reduction of travel will reduce Policy and Performance Management's ability to assist processes in areas outside of Helena.

The reduction in training for Director's Office staff will result in staff not staying current in their professional fields in order to effectively complete required duties.

This will inhibit the department's current attorneys, economists and policy professionals from staying current in their fields and will inhibit the development of new staff. This substantial reduction in training will increase the likelihood of errors and result in less efficiency in the performance of department work.

Historically, the department prepays FTA and MTC membership dues in one fiscal year for the next fiscal year. The department will not prepay FY 2004 membership dues in FY 2003. There is no impact on department operations in FY 2003 for this one-time savings. However, if the department lost funding in FY 2004 to pay for the membership dues the state would forego the audit revenue and other benefits of those programs.

The consequences of leaving the Hearings Officer position vacant for 6 months will delay the timeliness of resolving taxpayer appeals, and liquor license transfers and violations. Customer satisfaction will be diminished and to the extent the taxpayer is not successful with their appeal, additional interest charges will accrue. The cases that come before this office include the full range of disputes from individual income tax matters to disputes related to liquor licensing. The current statute requires that cases appealed to this office be resolved within 180 days unless a mutual extension of timeline can be agreed to. The adverse impact of this reduction was reduced in the August 2002 Special Legislative Session, with funding to fill the position on January 1, 2003.

Currently 2 out of 5 administrative support positions in the Director's Office are vacant. Due to the hiring freeze the department is unable to fill these positions. This reduced staffing level affects the efficiency and limits the services provided by legal staff, economists, policy makers, and department management and will be most acutely felt in the preparation for and during the upcoming legislative session.

Tax Policy and Research and budget staff have incurred significant overtime in session years. The overtime has been necessary to keep pace with the information and analysis demands of the legislative session. The types of work which must be done are fiscal notes, revenue monitoring and estimation, tax policy analysis – such as the impacts of various solutions on the cyclical reappraisal of agricultural land, timber, and residential and Class 4 commercial property, and developing or obtaining revenue and tax statistics for issues which arise during the session. This work is for the Governor's Office, legislators, legislative staff, affected parties, and the Director. The overtime as related to the budget area relates to being available at all times for budget hearings and completing analysis of effects of changes made by the legislature to the department's budget. The required decrease in overtime to adhere to the budget reductions will significantly inhibit Tax Policy and Research staff and the budget staff's ability to meet essential deadlines and provide timely accurate information to parties noted above.

The department's ability to produce quality and quantity will be impacted due to the additional stress of producing more with less. Stress levels will increase as well as the possibility of burn-out.

Program: Information Technology (IT)

Original Funding Level: $2,261,282

Summary of Budget Reductions: $106,747 or 4.72%

Areas Reduced: Reduction of the number of copiers, purchase of supplies, travel and training for all IT staff; limited replacement of computer equipment; limited off-site access to computer system; increased vacancy savings requirement due to pay plan reduction; and decreased overtime incurred to meet deadlines.

Narrative of Impact:

Increased vacancy savings coupled with reduction in overtime and inability to fill vacant positions will slow down the response time to assist staff with technology related problems. The resources remaining for the IT staff will need to be allocated among all processes which are located throughout the State of Montana. IT staff will address the highest priority issues first and the less critical areas as time permits.

As a means of meeting the reductions in the IT budget, the department will only replace computer equipment as it fails, will not upgrade computers, update software and will limit remote user access to the computer system to only staff with critical needs. In today's fast changing technology and software, this puts the department at risk in electronic communications and capability.

The department is at risk with the failure of old computer equipment to operate properly. Unscheduled outages and maintenance slows down production leaving many employees without the necessary tools to perform compliance activities. At the same time, it increases the workload of the IT staff where services will be needed throughout the state. The cost of lost user productivity and diminished service associated with failed computer work disruptions is not quantitative at this time; however, response time to department customers could be significantly delayed. As the computer replacement cycle extends beyond a four year period, we anticipate maintenance costs to increase.

Additionally, the department will run batch processing jobs during off business hours to reduce costs. This could delay information being posted to SABHRS and also delay staff receiving reports which increases the length of time to resolve issues for customers.

Program: Resource Management (RM)

Original Funding Level: $1,526,552

Summary of Budget Reductions: $68,872 or 4.51%

Areas Reduced: Reduction of the number of copiers, purchase of supplies, travel and training for all RM staff; moving staff out of the ASF building resulting in reduction of rental costs; reduction in number of department cell phones; increased vacancy savings requirement due to pay plan reduction; and decreased overtime incurred to meet deadlines.

Narrative of Impact:

The majority of the impacts of the reductions in RM relate to services provided to department staff and the public. Internal training will be significantly reduced with only critical training being provided. Therefore, our staff will not receive all the training necessary to perform at their highest level. Limited training external to the department will be provided.

The public will receive less information from the department either in the form of educational programs, TV, radio and newspaper advertisements, public service announcements or brochures. The department will not participate in Assistance for Business Clinics this year. In previous years, we have participated in approximately 25 business clinics annually and provided taxpayer assistance to approximately 1,500 businesses. We also provide TV, radio and newspaper advertisements and public service announcements during the tax filing season to assist individuals in filing their tax return. Those will be limited. With re-appraisal nearing completion, we had planned to implement an educational program to help answer questions the public may have. That plan has been significantly reduced.

The result of these changes will be a less informed and possibly more frustrated public as they try to understand their tax filing requirements. Error rates in filings may increase causing increased workloads and public frustration.

Program: Customer Service Center (CSC)

Original Funding Level: $3,737,041

Summary of Budget Reductions: $192,627 or 5.15%

Areas Reduced: Reduction of the number of copiers, purchase of supplies, 2/3 equipment, travel and training for all CSC staff; elimination of printing and mailing of tax preparation packages to tax preparers; elimination of prepayment of FY 2004 maintenance contracts for Cardiff and GenTran; increased vacancy savings requirement due to pay plan reduction; and decreased overtime incurred to meet deadlines.

Narrative of Impact:

The above budget cuts for FY 2003 will impact two areas of the Customer Service Center – Document and Information Processing (DIP) and Customer Intake (CI). The Accounts Receivable/Collections area is not impacted due to the enhanced revenue initiative approved in the August 2002 Special Legislative Session. The reductions of 20% in funding for the pay plan, the hiring freeze, and the 1% global reduction will have the greatest impact on these areas. Both the DIP and CI areas are heavily dependent on staff to perform the work. DIP processes millions of payments and hundreds of thousands of paper documents each year. Most of the work involves manual tasks such as opening mail, cashiering payments, data entry of tax information, and records retention activities. In order to complete this work, DIP has hired temporary staff on a regular basis to meet peak processing demands. CI handles hundreds of thousands of taxpayer/customer inquiries, registers and maintains customer account information, and licenses thousands of businesses for a variety of activities primarily in the liquor area.

Specific to each area are the following impacts:

DIP

- The impact of the budgetary reductions will primarily fall into two areas, cashiering of payments and processing of tax returns.
- If the hiring freeze precludes the hiring of temporary staff, approximately 35,000 to 40,000 in refund returns will not be processed within the statutory 45-day time frame. This will result in the state having to pay interest to those customers of as much as $350,000 to $400,000.
- Delays in cashiering payments for the same reason of not being able to hire temporary staff would result in the state losing interest earnings of approximately $200,000. Again not being able to hire temporary staff may result in certain federal and state required goals not being met, such as timely deposit of Unemployment Insurance Tax payments to the federal trust fund, 24-hour deposit of all monies from the time of receipt, and the timely entry of new hire information to the Child Support Enforcement Division.
- The 25% reduction in supplies could result in shortages of paper stock to send compliance and valuation correspondence such as statements of account, warrants for distraint, assessment notices and funds levies.

CI

- The impact of the budgetary reductions will primarily fall to the Call Center. The Call Center answers approximately 230,000 customer inquiries each year. The Call Center is already down 1.75 FTE that has resulted in delays in responding to customer inquiries during peak processing times (e.g. end of quarters and April 15th). Current vacancy savings will result in more calls routed to compliance and valuation staff thereby reducing the number of hours they have available to perform audits and appraisal/assessment activities.
- Each year, the department mails tax preparation packages to tax preparers in the State of Montana. Approximately 3,000 packages are mailed that include copies of all tax forms for the year. The department will not provide this service to its customers in FY 2003. The forms and instructions are all contained on the department's web site, which tax preparers could download.

Program: Compliance Valuation & Resolution (CVR)

Original Funding Level: $17,790,775

Summary of Budget Reductions: $661,229 or 3.72%

Areas Reduced: Reduction of number of copiers, purchase of supplies, travel and training for all CVR staff; reduction of appropriation authority related to making auditor salaries competitive in order to recruit and retain audit staff; elimination of memo of understanding with Yellowstone County related to Geographic Information System; elimination of participation in regional business clinics; reduction of office space resulting in reduced rental costs; reduction in mailing costs for self-reporting program; leaving regional lead position vacant for FY 2003; increased vacancy savings requirement due to pay plan reduction; and decreased overtime incurred to meet deadlines.

Narrative of Impact:

The above budget cuts for FY 2003 will significantly impact the activities of the property tax area and will have some impact on compliance activities. The reductions of 20% in funding for the pay plan, the hiring freeze, and the 1% global reduction will have the greatest impact. The department is statutorily obligated to annually complete the valuation and assessment of all property in State of Montana. Additionally, that obligation includes the reappraisal of Class 3, 4, and 10 property in Montana on a cyclical basis. Assessments from the current reappraisal will be sent out between April and early July of 2003, as required by law, depending on the type of property involved. These budget cuts have extended the completion dates for reappraisal. However, the department still anticipates completion of reappraisal within the statutory assessment deadlines.

Specific to each area are the following impacts:

- Eliminating the memo of understanding with Yellowstone County related to the Geographic Information System (GIS) may slow the maintenance of the GIS. The department has contributed services and funding as part of a tri-party cooperative agreement. To move forward with this project, the department intends to contribute “in kind” services of employees to the degree available.

- Reducing the training budget for all CVR staff will impact property tax activities. A combination of core educational courses of instruction and specific “on-the-job” training modules is necessary. There is no secondary education curriculum that prepares new employees to immediately perform their work requirement. In addition, there are specific statutory training requirements for appraisal staff (e.g. IAAO courses I and II). Failure to provide adequate training for field staff will result in additional employee turnover and the substandard valuation and assessment of taxable property in Montana (e.g. basic assessment and ownership splits; use of computer assisted mass appraisal system; appraisal techniques and methodologies; and appeals). Additionally, reduction of travel will limit the ability to cross train within department regions and to maintain consistency of process.

- The reduction in mailing costs associated with the self-reporting project will eliminate the ability to extend that program on a statewide basis. Self-reporting provided a vehicle for taxpayers to advise the department about differences they have observed in property tax information that currently resides on the department’s computer assisted mass appraisal system. The department completed a 12 county pilot project. The self-reporting project provided additional data used to value property for property tax purposes.

- The inability to hire staff or having to hold positions vacant for longer periods of time will have an impact on our ability to accomplish our annual assessment/appraisal activities and our cyclical reappraisal activities. Without any additional reduction in staff, the department is concerned with its ability to complete its annual valuation and assessment work. Included in that work is keeping ownerships for property tax purposes current, valuing all property “splits”, locating and valuing new construction, processing reports and valuing personal property, maintaining the property tax assistance program, entering all special improvement district fees and charges, and calculating taxes. In addition, the department is statutorily obligated to report the taxable value to each taxing jurisdiction in Montana by the second Monday in July. As stated above, it is anticipated that the assessment notification to each affected taxpayer of their new reappraisal values will be provided between April and early July 2003. Any additional reductions in staffing or operational expenses, specifically needed for reappraisal activities, will impact the department's ability to timely complete reappraisal.

- Currently 3 out of 5 administrative support positions in CVR are vacant. Due to the hiring freeze the department is unable to fill these positions. This may result in both appraisers and auditors performing duties that would otherwise be done by administrative support staff. These duties include routine research, maintenance of files and reports, sorting incoming and outgoing mail, making copies and handling personnel matters.

- Eliminated regional business clinics – Historically the department has participated in regional business clinics that are used primarily to inform and educate owners of new business of their obligations to the department. By no longer participating in these clinics we will miss the opportunity to get new businesses properly registered, and they will not be given any instruction as to how to properly fill out our tax forms. This could cause additional work later to bring taxpayers into compliance with such things as the Unemployment Insurance, Withholding, Accommodations and Contractors Gross Receipts Taxes. Also, it may result in taxpayers being assessed penalty and interest because they failed to, or improperly filed their tax returns.

The effects of the above budget reductions on the department's goals and objectives have been added to the goals and objectives posted to the department's website as of October 1, 2002.

<u>Compliance with HB 2 section 10 (2)-(5)</u>
All executive branch agencies are working with the Office of Budget and Program Planning to outline priority programs in preparation for the upcoming legislature. As those priorities are finalized and approved by the Budget Office and Governor Martz, they will be posted on this website to comply with the recommendations of House Bill 2 from the August 2002 Special Legislative Session.